

**NEW JERSEY BUILDING AUTHORITY**

(A Component Unit of the State of New Jersey)

Financial Statements

Years Ended December 31, 2003 and 2002

**NEW JERSEY BUILDING AUTHORITY**  
**(A Component Unit of the State of New Jersey)**

Years Ended December 31, 2003 and 2002

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# **NEW JERSEY BUILDING AUTHORITY**

## **(A Component Unit of the State of New Jersey)**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the New Jersey Building Authority's (the Authority) annual financial report represents our discussion of the Authority's financial performance and provides an overview of the Authority's activity for the fiscal year ended December 31, 2003. Please read it in conjunction with the Authority's financial statements.

#### **Financial Highlights**

- The Authority's net assets decreased \$755,000 due primarily to swap agreement costs.
- Operating Revenue decreased approximately \$12.1 million due in part to the bond refundings which reduced the state's debt service obligation.
- Construction-In-Progress decreased approximately \$238 million due to completed projects being reclassified as a minimum lease receivable.
- The deferred amount on advanced refunding of bonds increased \$11.5 million due to a loss on the 2003 Refunding.
- The Authority's debt decreased approximately \$15.6 million due to actual principal payments, net of bond proceeds from refunding.

#### **Overview of the Financial Statements**

The annual report consists of two parts – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include the statement of net assets and related statements of revenues, expense, and changes in net assets and cash flows.

#### **Financial Summary**

Changes in Net Assets, Revenues, Expenses between December 31, 2003 and 2002 are summarized in Table 1.

# NEW JERSEY BUILDING AUTHORITY

## (A Component Unit of the State of New Jersey)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

**Table 1**

Changes in net assets	2003	2002	Change	
			\$	%
Revenues:				
Interest income related to leases and other payments from state of NJ	\$ 20,038,588	\$ 32,117,528	(12,078,940)	(37.6)%
Other interest income:				
Money market interest	51,874	79,588	(27,714)	(34.8)%
Cash management fund interest	525,582	1,714,046	(1,188,464)	(69.3)%
FRA interest	1,014,903	767,947	246,956	32.2%
Less arbitrage rebate expense (1)	—	(2,453,193)	2,453,193	(100.0)%
Total other interest income	1,592,359	108,388	1,483,971	1,369.1%
Total revenues	21,630,947	32,225,916	(10,594,969)	(32.9)%
Expenses:				
Interest expense on bonds including amortization of debt discount	20,038,588	32,117,528	(12,078,940)	(37.6)%
Other expenses:				
Administrative	34,342	134,163	(99,821)	(74.4)%
Salary	390,535	202,017	188,518	93.3%
Bond Swap Costs	1,885,561	—	1,885,561	100.0%
Other	36,729	38,001	(1,272)	(3.3)%
Total other expenses	2,347,167	374,181	1,972,986	527.3%
Total expenses	22,385,755	32,491,709	(10,105,954)	(31.1)%
Decrease in net assets	\$ (754,808)	\$ (265,793)	(489,015)	184.0%

(1) Included in other expenses in the statements of revenues, expenses and changes in net assets.

## NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Revenues

Interest income related to lease and other payments from the State of New Jersey decreased approximately \$12.1 million from \$32.1 million at December 31, 2002 to \$20 million at December 31, 2003.

State rental receipts totaled \$68.9 million, of which \$32.8 million was associated with the interest portion of bond payments as identified in the official statements and \$36.1 million associated with the pay-down of the principal portion. Principal portions reduce the minimum lease receivable of the Authority and the interest portion is netted against the interest expense of the authority for each bond payment. The remaining balance in this account is composed of accrued interest payable on the Authority's bonds and the net effect of interest expense items not related to the amortization of bonds including amortization of discounts, premiums, and deferred bond costs.

Other interest income decreased \$969,225 from \$2,561,584 in 2002 to \$1,592,359 in 2003. The decrease was due to construction expenditures reducing cash management and flexible repurchase agreement balances.

#### Expenses

Interest expense on bonds and supplemental interest certificates decreased approximately \$12.1 million as a result of the interest being capitalized as construction-in-progress for ongoing projects

Other Expenses decreased \$2.4 million due to a large non recurring arbitrage expense in 2002.

Summary of assets and liabilities	2003		2002	
	(In thousands)			
Current assets	\$	156,354	\$	183,862
Construction in progress		263,935		502,185
Minimum lease receivable		347,066		118,360
Other assets		27,901		17,871
	\$	<u>795,256</u>	\$	<u>822,278</u>
Current liabilities	\$	39,243	\$	51,140
Long-term debt		<u>751,419</u>		<u>765,789</u>
Total liabilities		790,662		816,929
Net assets-restricted		<u>4,594</u>		<u>5,349</u>
	\$	<u><u>795,256</u></u>	\$	<u><u>822,278</u></u>

#### Current Assets

Current assets decreased \$27.5 million primarily due to a \$39.4 million decrease in cash. The cash decrease is detailed on the statement of cash flows.

# NEW JERSEY BUILDING AUTHORITY

## (A Component Unit of the State of New Jersey)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Construction-In- Progress Costs

Construction-In-Progress decreased to approximately \$264 million as of December 31, 2003 from \$502.2 million as of December 31, 2002. Table 2 shows the change by project in Construction in Progress.

**Table 2**

	<u>2003</u>	<u>2002</u>	<u>Increase (decrease)</u>
State Police E. O.C.	\$ 3,034	\$ 602	\$ 2,432
State Museum	460	—	460
Justice Complex	9,544	3,119	6,425
DOT Building	7,890	8,390	(500)
Entablature Repair	—	6,835	(6,835)
State House Phase II	46,217	52,622	(6,405)
State House Annex/Garage	28,279	28,077	202
State House Dome	—	7,307	(7,307)
South Woods State Prison	—	238,882	(238,882)
Education Building	15,705	16,466	(761)
Labor Building	21,569	20,115	1,454
Edison Townhouse	13,437	13,873	(436)
Old Barracks	—	6,738	(6,738)
War Memorial	32,496	34,268	(1,772)
Labor Building Exterior Panel	2,841	3,560	(719)
State Police Building	82,463	61,331	21,132
Total	<u>\$ 263,935</u>	<u>\$ 502,185</u>	<u>\$ (238,250)</u>

The \$238 million decrease was due to the movement of four completed projects (Entablature, State House Dome, South Woods State Prison and Old Barracks) from construction-in-progress to the minimum lease receivable account.

Construction activity in 2003 focused on the State Police Multi-Purpose Building, the State Police Emergency Operation Center and the renovation of the Richard J Hughes Justice Complex. The Cultural Complex and the War Memorial Restoration are in the closeout phase.

#### Current Liabilities

Current Liabilities decreased \$11.9 million primarily due to a \$7.8 million decrease in bonds payable and a \$4.9 million decrease in accounts payable.

# **NEW JERSEY BUILDING AUTHORITY**

**(A Component Unit of the State of New Jersey)**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Outstanding Debt**

Including current and noncurrent portions of long-term debt, the Authority had \$783 million in bonds outstanding versus \$805 million last year, a decrease of \$22 million as shown in Table 3. The decrease was primarily due to principal payments, net of bond proceeds.

### **Non-Current Liabilities**

Non-Current Liabilities decreased \$13.5 million to reflect payments of principal on long-term debt.

### **Contacting Financial Management**

This financial report is designed to provide citizens, vendors, and creditors with a general overview of the New Jersey Building Authority finances. If you have any questions about this report or need additional financial information, contact the Authority's Fiscal office at P.O. Box 211 Trenton, New Jersey 08625-0211.

## Independent Auditors' Report

The Board of Directors  
New Jersey Building Authority:

We have audited the accompanying statement of net assets of the New Jersey Building Authority (the Authority), a component unit of the State of New Jersey, as of December 31, 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority as of December 31, 2002 were audited by other auditors whose report dated May 29, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey Building Authority as of December 31, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Mercadien, P.C.*

April 19, 2004

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• PRIVATE COMPANIES PRACTICE SECTION  
• SEC PRACTICE SECTION



**NEW JERSEY BUILDING AUTHORITY**  
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**STATEMENTS OF NET ASSETS**

		December 31,	
		2003	2002
ASSETS			
Current Assets			
Cash and equivalents		\$ 88,394,533	\$ 127,798,071
Accrued interest receivable		62,348	10,297
Prepays and other assets		68,229	37,652
Minimum lease payments receivable		64,995,275	54,615,206
Deferred amount on advanced refunding of bonds, unamortized		2,248,443	1,023,787
Deferred bond issuance costs, unamortized		585,479	376,750
Total Current Assets		<u>156,354,307</u>	<u>183,861,763</u>
Non-Current Assets			
Minimum lease payments receivable, net of interest to be received in the future		347,065,862	118,359,327
Deferred amount on advanced refunding of bonds, unamortized		23,862,503	13,599,796
Deferred bond issuance costs, unamortized		3,991,776	4,247,939
Property and equipment		46,379	24,639
Construction in progress		263,935,476	502,184,795
Total Non-Current Assets		<u>638,901,996</u>	<u>638,416,496</u>
TOTAL ASSETS		<u>\$ 795,256,303</u>	<u>\$ 822,278,259</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable		\$ 2,281,739	\$ 7,139,590
Contractor retainage payable		2,387,404	2,358,065
Accrued bond interest payable		3,448,231	2,667,226
Bonds payable		31,125,836	38,976,121
Total Current Liabilities		<u>39,243,210</u>	<u>51,141,002</u>
Non-Current Liabilities			
Bonds payable		751,419,164	765,788,520
TOTAL LIABILITIES		<u>790,662,374</u>	<u>816,929,522</u>
NET ASSETS			
Restricted		4,593,929	5,348,737
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 795,256,303</u>	<u>\$ 822,278,259</u>

See notes to financial statements.

**NEW JERSEY BUILDING AUTHORITY**  
**(A Component Unit of the State of New Jersey)**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	Year Ended December 31,	
	2003	2002
Interest income:		
Leases and other payments from State of New Jersey	\$ 20,038,588	\$ 32,117,528
Interest income on cash equivalents	<u>1,592,359</u>	<u>2,561,581</u>
Total revenues	<u>21,630,947</u>	<u>34,679,109</u>
Operating Expenses:		
Interest expense:		
Bonds	20,038,588	32,117,528
Swap agreement costs	1,885,561	-
Other expenses	<u>461,606</u>	<u>2,827,374</u>
Total Operating Expenses	<u>22,385,755</u>	<u>34,944,902</u>
Change in net assets	(754,808)	(265,793)
Net Assets - restricted, beginning of year	<u>5,348,737</u>	<u>5,614,530</u>
Net Assets - restricted, end of year	<u><u>\$ 4,593,929</u></u>	<u><u>\$ 5,348,737</u></u>

**NEW JERSEY BUILDING AUTHORITY**  
**(A Component Unit of the State of New Jersey)**  
**STATEMENTS OF CASH FLOWS**

	Year Ended December 31,	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts:		
State of New Jersey lease payments	\$ 20,038,588	\$ 32,117,528
Principal receipts:		
State of New Jersey lease payments	9,503,936	6,265,214
Payments for administrative expenses	(5,319,457)	(374,181)
Payments for arbitrage rebate	-	(3,861,353)
Net cash provided by operating activities	<u>24,223,067</u>	<u>34,147,208</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal paid on bonds	(205,600,000)	(265,516,245)
Interest paid on bonds	(19,257,583)	(31,882,489)
Bond issuance costs paid	(2,226,775)	(2,282,085)
Bond proceeds	189,950,000	300,036,934
Swap costs paid	(1,716,011)	-
Net cash used in/provided by financing activities	<u>(38,850,369)</u>	<u>356,115</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in construction in progress	(26,294,804)	(35,396,201)
Purchases of property and equipment	(21,740)	-
Interest on cash equivalents	1,540,308	2,640,746
Net cash used in investing activities	<u>(24,776,236)</u>	<u>(32,755,455)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<u>(39,403,538)</u>	<u>1,747,868</u>
<b>Cash at Beginning of Year</b>	<u>127,798,071</u>	<u>126,050,203</u>
<b>Cash at End of Year</b>	<u>\$ 88,394,533</u>	<u>\$ 127,798,071</u>

**Reconciliation of Operating Loss to Net Cash provided by Operating Activities:**

<b>Operating Loss</b>	\$ (754,808)	\$ (265,793)
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**Adjustments to reconcile operating loss to net cash provided by operating activities:**

Interest expense - bonds	20,038,588	31,882,489
Swap agreement costs	1,885,561	-
Capital appreciation bonds - noncash portion	-	(10,090,998)
Accretion of discount on capital appreciation bonds	-	7,122,840
Amortization of premium on refunding of bonds	-	292,834
Amortization of deferred bond costs	-	289,142
Amortization of premium on bond indebtedness	-	(110,131)
Depreciation	7,352	-
Amortization	(787,119)	-
Interest on investments	(1,540,308)	(2,640,746)

**Net change in assets and liabilities:**

Prepays and other assets	(82,628)	54,526
Minimum lease payments receivable	9,503,936	6,265,214
Accounts payable	(4,857,851)	(583,922)
Contractor retainage payable	29,339	1,213,152
Accrued bond interest payable	781,005	718,601
<b>Net Cash provided by operating activities</b>	<u>\$ 24,223,067</u>	<u>\$ 34,147,208</u>

**NEW JERSEY BUILDING AUTHORITY**  
**(A Component Unit of the State of New Jersey)**

**NOTES TO FINANCIAL STATEMENTS**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of the Authority**

The New Jersey Building Authority, a component unit of the State of New Jersey (the Authority), a body corporate and politic and an instrumentality of the State of New Jersey (the State), was created in 1981 by the State Legislature for the purpose of providing the capital resources (through the sale of bonds, notes and other obligations) necessary to acquire, construct, reconstruct, rehabilitate or improve office buildings, or related facilities necessary or convenient to the operation of any State agency.

In Chapter 174 of the Pamphlet Laws of 1992, the State Legislature amended the Authority's statute to expand the types of projects the Authority can undertake. The Authority can also now construct or rehabilitate correctional facilities and renovate and preserve historic public buildings. The amendment also removed the \$250 million bond principal limitation.

**Reporting Entity**

The decision to include a potential component unit in the Authority's reporting entity is based on several criteria, including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the Authority has no component units.

The Authority, under a master lease with amendments for individual properties, has leased to the State the buildings constructed or renovated with funds provided from various bond offerings made by the Authority. The State is required to pay rent to the Authority in amounts sufficient to pay (1) debt service on the bonds outstanding (to the extent such debt service is not funded from other monies available in the debt service account of the debt service fund, as provided for in the master lease agreement) and (2) administrative expenses of the Authority. The lease transactions with the State are accounted for as direct financing leases.

The State is responsible for the award and monitoring of all contracts for the design, acquisition and construction of projects as well as supervision of construction work and acceptance of the completed projects. Project costs incurred by the State are paid by the Authority's bond trustee out of the construction fund after approval by an authorized Authority representative. Pursuant to the terms of the master lease, the Authority is not liable or responsible for the adequacy, sufficiency and suitability of the plans and specifications of any contracts or agreements with respect to the acquisition or construction of these projects. During the master lease term, the State is responsible for all costs relating to the operation, maintenance and repair of the projects. In addition, the State pays for all utilities, taxes and governmental charges during the lease term.

At any time prior to the expiration of the master lease term, the State has the option to purchase the projects for a price of \$1 plus an amount sufficient to provide the full payment of the bonds and accrued interest in conformity with the bond resolution. If such option has not been exercised prior to the end of the lease term, the title to the projects will be transferred by the Authority to the State at that time.

# NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

## NOTES TO FINANCIAL STATEMENTS

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Reporting Entity (Continued)

The obligation of the State to make rental payments is subject to and depends upon yearly appropriations being made by the State Legislature for such purposes. In the event the State fails to make the necessary lease payments, the Authority may take possession of the projects and either lease or sell them to another party. In either case, the State is obligated to reimburse the Authority for any deficiency between the lease payments called for by the master lease and amounts paid by other parties.

The Authority was created by act of Legislation as an instrumentality of the State to acquire, construct, reconstruct, rehabilitate, or improve office, correctional, historical and other public facilities, as well as provide the financing for these projects. In accordance with its enabling legislation, interest income earned by the Authority on its investments becomes part of the funds utilized by the Authority to provide for the costs of the related projects.

#### Basis of Accounting

The Authority prepares its financial statements using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, provides proprietary activities with a choice of authoritative guidance issued after November 30, 1989. The Authority has elected to follow GASB pronouncements exclusively after that date.

#### Use of Financial Instruments

Variable Rate Revenue Bonds, 2003 Series A Issue

In connection with its issuance of \$189,950,000 Variable Rate Revenue Bonds, 2003 Series A issue, on August 15, 2003, the Authority has entered into six separate swap agreements, two each with Citibank, N.A., New York, Goldman Sachs Mitsui Marine Derivative Products, L.P. and with Morgan Stanley Capital Services, Inc. The nature and purpose of each of these transactions is described below:

##### 1) Interest Rate Swap Agreements

Under the terms of these Agreements, which were executed on the same date and feature identical general terms, the Authority pays a fixed rate of 3.64% to Citibank, Goldman Sachs and Morgan Stanley on a notional amount equal to the principal amount of the 2003 bonds being hedged pursuant to such swap. In return, the respective swap provider will pay the Authority a floating amount based on 62% of one month LIBOR plus .20% on the same notional amount. As the 2003 bonds are redeemed, the notional amounts of the respective swaps shall decrease proportionately. The purpose of these Agreements is to achieve a synthetic fixed rate. The swaps remain in effect during the entire term of the 2003 bonds. As of December 31, 2003, the swaps had a total fair value of \$7,722,899.

## NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

### NOTES TO FINANCIAL STATEMENTS

#### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2) Credit Risk

As of December 31, 2003, the Authority was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the Authority would be exposed to credit risk in the amount of the swaps' fair value.

##### 3) Termination Risk

The swap contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the Authority if the counterparty's credit quality rating falls below "a-" as issued by Fitch Ratings or Standards & Poor's or "A3" as issued by Moody's Investors Service. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

In connection with these Agreements, other than the net interest expense resulting from the Agreement, no amounts are recorded in the financial statements.

#### Funds Required by Bond Resolutions

In accordance with certain bond resolutions, the Authority has established the following restricted funds (accounts) to be held by Wachovia Bank, as Trustee, to account for all revenue received by the Authority.

<u>Fund</u>	<u>Amount</u>	<u>Use for which restricted</u>
Construction	Any amount determined by the Authority after meeting requirements under the bond resolution for all of the other funds.	Payment of construction costs of any authorized projects
Revenue	All revenues must be paid into this fund.	Transfers into the debt service, subordinated debt and bond retirement funds.
Debt Service	Amount needed to pay principal and interest on or before each interest payment date and principal installment date on the bonds.	Payment of principal and interest on the bonds.
Subordinated Debt	Amount needed to pay principal and interest on or before each interest payment date and principal installment date on subordinated debt.	Payment of principal and interest on any subordinated debt.

# NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

## NOTES TO FINANCIAL STATEMENTS

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

<u>Fund</u>	<u>Amount</u>	<u>Use for which restricted</u>
Bond Retirement	Any amount determined by the Authority after meeting requirements under the bond resolution for all of the other funds.	Purchase or redemption of bonds.
Rebate	Estimated amount needed to pay arbitrage earnings.	Payment of arbitrage earnings to the federal government recorded as a payable in the financial statements.

For financial reporting purposes, the assets, liabilities, and fund net assets and related revenues, expenses and cash flows of these funds have been combined.

The following sets forth the cash and equivalent balances in the above funds as of December 31, 2003 and 2002:

	2003	2002
Construction fund	\$ 85,907,477	\$ 120,271,425
Debt service	1,177,486	6,209,119
Rebate fund	1,159,958	1,153,228
Other	149,612	164,299
	<u>\$ 88,394,533</u>	<u>\$ 127,798,071</u>

#### Construction in Progress

Construction in progress is stated at cost, which includes direct construction costs and other expenditures related to construction, including capitalized net interest. All construction costs related to projects which are not yet completed are charged to construction in progress until such time as the projects are completed and put into operation. Construction in progress is reduced when assets are put into operation and an offsetting minimum lease payment receivable is established.

#### Capitalized Interest

The Authority capitalizes all interest expense and income related to projects under construction.

#### Deferred Bond Issuance Costs

Deferred bond issuance costs are being amortized using the effective interest method over the life of the applicable bond issue.

# **NEW JERSEY BUILDING AUTHORITY**

## **(A Component Unit of the State of New Jersey)**

### **NOTES TO FINANCIAL STATEMENTS**

#### **A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Refunding Bond Issues**

As a result of refundings in 2003 and prior, the Authority recorded losses on defeasance of \$13,081,720 and \$11,066,245, respectively, representing the differences between the new debt issued and the carrying amount of the debt refunded. The loss on defeasance has been deferred and is being amortized over the life of the new debt. For financial statement purposes, the Authority follows Governmental Accounting Standards Board Statement No. 23 "Accounting and Financial Reporting for Refunding of Debt reported by Proprietary Activities". Amortization costs amounted to \$975,249 for the year ended December 31, 2003 and are included in construction in progress.

##### **Net Assets**

Net assets are classified as restricted and can only be utilized upon approval by the State Treasurer.

##### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

##### **Income Taxes**

As an instrumentality of the State under existing statute, the Authority is exempt from both federal and State taxes.

##### **Administrative Expense**

The Authority reimburses the State for salary, fringe benefits and related costs for overhead and other expenses that support the operations of the Authority.

##### **Cash and Cash Equivalents**

Cash and equivalents held at financial institutions can be categorized according to three levels of risk. Category 1 includes amounts which are insured or collateralized with securities held by the Authority or by its agent in the Authority's name. Category 2 includes amounts which are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 includes amounts which are not collateralized. All amounts are Category 1.



# NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

## NOTES TO FINANCIAL STATEMENTS

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As of December 31, 2003 and 2002, cash and cash equivalents are comprised of:

	2003	2002
State of New Jersey cash management fund	\$ 28,498,010	\$ 118,900,750
Money market funds	2,717,312	8,874,538
Flexible repurchase agreements	57,151,089	-
Non-interest bearing accounts	28,122	22,783
	<u>\$ 88,394,533</u>	<u>\$ 127,798,071</u>

### B. MINIMUM LEASE PAYMENTS RECEIVABLE

Future minimum lease payments receivable from the State as of December 31, 2003 are as follows:

2004	\$ 42,670,862
2005	46,295,311
2006	49,089,387
2007	54,367,968
2008	47,250,346
2009-2013	230,339,703
2014-2018	136,371,750
2019-2023	10,865,587
	<u>617,250,914</u>
Less amounts representing interest	205,189,777
	<u>\$ 412,061,137</u>

The State is obligated to make payments to the Authority for the uncompleted portions of the State House Complex Project and other uncompleted projects funded by the 1994, 1997, 1999, 2000, 2002 and 2003 Series Bonds.

In 2002, the Authority's debt service was approximately \$73.4 million. In the prior years, the State rental receipts provided the necessary monies to fund in full the Authority's debt service. In 2002, the State rental receipts were \$38.4 million as the Authority used approximately \$35.0 million of other monies available in the debt service account of the debt service fund to fund that portion of its debt service in 2002, as provided for in the master lease agreement.

## NEW JERSEY BUILDING AUTHORITY

(A Component Unit of the State of New Jersey)

### NOTES TO FINANCIAL STATEMENTS

#### C. COMMITMENTS AND CONTINGENCIES

The Authority has contract commitments for the renovation of the State House Complex and for construction and renovations funded by the 1994, 1997, 1999, 2000, 2002 and 2003 Series Bonds as of December 31, 2003 in the approximate amount of \$14,600,000. Such commitments relate to various architectural and construction contracts under the project.

The Authority is engaged in certain legal proceedings relating to vendor claims. Management of the Authority believes the outcome of these proceedings will not have a material adverse effect on the Authority's financial position or changes in net assets.

#### D. BONDS PAYABLE

Bond activity for the years ended December 31, 2003 and 2002 was as follows:

Balance, December 31, 2001	\$ 752,168,000
Additions	307,159,774
Reductions	<u>(254,560,133)</u>
Balance, December 31, 2002	804,767,641
Additions	193,651,889
Reductions	<u>(215,874,530)</u>
Balance, December 31, 2003	<u><u>\$ 782,545,000</u></u>

##### *2003 Series A*

In August 2003, the Authority issued \$189,950,000 of 2003 Series A Bonds. The proceeds were used to refund \$174,300,000 of previously issued bonds, including \$76,770,000 of 1994 Series Bonds, \$56,530,000 of 1999 Series Bonds, \$12,695,000 of 2000 Series Bonds, and \$28,305,000 of 2002 Series A Bonds.

The bonds were issued at a discount of \$1,013,921, which is being capitalized in construction in progress. The bonds mature at various amounts from June 10, 2005 through June 15, 2023. The bonds bear an interest rate of 3.64%.

In connection with the 2003 refunding, the Authority realized a loss of refunding of \$13,081,720, which has been included in deferred amount on advance refunding of bonds in the balance sheet as of December 31, 2003, and is to be amortized over the average original lives of the refunded bonds.

##### *2002 Series A*

In December 2002, the Authority issued \$65,375,000 of 2002 Series A Bonds. The proceeds were used to finance the costs of the State Police Emergency Operations Center.

## **NEW JERSEY BUILDING AUTHORITY**

### **(A Component Unit of the State of New Jersey)**

#### **NOTES TO FINANCIAL STATEMENTS**

##### **D. BONDS PAYABLE (CONTINUED)**

The bonds were issued at a premium of \$2,792,000, which is being amortized as a reduction of construction in progress using the effective interest method over the life of the bonds. The bonds mature in various amounts from December 2005 through December 2023. The bonds bear interest rates ranging from 2.05% to 5.25%.

In August 2003 \$28,305,000 of the 2002 Series A Bonds were refunded by the 2003 Series A Bonds. As a result, the \$28,305,000 principal amount of the 2002 Series A bonds is considered to be defeased and the liability for such bonds was removed from the balance sheet.

##### ***2002 Series B***

In December 2002, the Authority issued \$210,515,000 of 2002 Series B Bonds. The proceeds were used to refund \$212,930,000 of previously issued bonds, including \$164,920,000 of 1994 Series Bonds, \$26,335,000 of 1997 Series Bonds, \$18,550,000 of 1999 Series Bonds and \$3,125,000 of 2000 Series Bonds.

The bonds were issued at a premium of \$21,355,000, which is being amortized as a reduction of construction in progress using the effective interest method over the life of the bonds. The bonds mature in various amounts from December 2005 through December 2023. The bonds bear interest rates ranging from 2.05% to 5.25%.

In connection with the 2002 refunding, the Authority realized a loss in refunding of \$11,066,000, which has been included as part of the deferred amount on advanced refunding of bonds in the balance sheet as of December 31, 2003 and 2002, the amount is to be amortized over the average original lives of the refunded bonds.

##### ***2000 Series***

In August 2000, the Authority issued \$29,000,000 of 2000 Series Bonds. The proceeds were used to finance the costs of the 2000 series projects consisting of the Justice Complex and the Department of Transportation project.

The bonds were issued at a discount of \$425,000, which is being amortized as construction in progress costs using the effective interest method over the life of the bonds. The bonds mature at various amounts from June 2001 through June 2020. The bonds bear interest rates ranging from 4.350% to 5.125%.

In December 2002, \$3,125,000 of the 2000 Series Bonds were refunded by the 2002 Series B Bonds. As a result, the \$3,125,000 principal amount of the 2000 Series is considered to be defeased and the liability for such bonds was removed from the balance sheet.

In August 2003, \$12,695,000 of the 2000 Series Bonds were refunded by the 2003 Series A Bonds. As a result, the \$12,695,000 principal amount of the 2000 Series Bonds is considered to be defeased and the liability for such bonds was removed from the balance sheet.

## NEW JERSEY BUILDING AUTHORITY

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#### NOTES TO FINANCIAL STATEMENTS

#### D. BONDS PAYABLE (CONTINUED)

##### *1999 Series*

In October 1999, the Authority issued \$134,925,000 of 1999 Series Bonds. The proceeds were used for the acquisition of the Richard J. Hughes Justice Complex, and construction of a new facility to house the New Jersey Department of Treasury's Division of Revenue and State Police Troop "C" Headquarters. The project for the new facility has since been renamed the State Police Multi-Purpose Building and Troop "C" headquarters.

The bonds were issued at a premium of \$2,502,000, which is being amortized as a reduction of construction in progress using the effective interest method over the life of the bonds. The bonds mature at various amounts from June 2000 through June 2019. The bonds bear interest rates ranging from 5.0% to 5.75%.

In December 2002, \$18,550,000 of the 1999 Series Bonds were refunded by the 2002 Series B Bonds. As a result, the \$18,550,000 principal amount of the 1999 Series is considered to be defeased and the liability for such bonds was removed from the balance sheet.

In August 2003, \$56,530,000 of the 1999 Series Bonds were refunded by the 2003 Series A Bonds. As a result, the \$56,530,000 principal amount of the 1999 Series Bonds is considered to be defeased and the liability for such bonds was removed from the balance sheet.

##### *1997 Series*

In September 1997, the Authority issued \$224,630,000 of 1997 Series Bonds. A portion of the proceeds of the bonds was used to advance refund \$97,995,000 principal amount of the \$103,760,000 outstanding 1987 Series Bonds and to pay certain costs incurred in connection with the 1997 Series Bonds. As a result, the \$97,995,000 principal amount of the 1987 Series is considered to be defeased and the liability for such bonds was removed from the balance sheet. The defeased bonds were called and paid off in 1997. The advance refunding of the 1987 Series Bonds resulted in a loss of refunding of \$1,717,000.

The remaining proceeds of the 1997 Series Bonds were used to fund the following:

- a. The costs of construction, renovation, reconstruction and/or improvement of several State Office Buildings and Historic Restoration Projects.
- b. The costs of land acquisition and construction of South Woods State Prison.
- c. To provide payment for a portion of interest payable on the 1997 Series Bonds through June 15, 1999.

## **NEW JERSEY BUILDING AUTHORITY**

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#### **NOTES TO FINANCIAL STATEMENTS**

##### **D. BONDS PAYABLE (CONTINUED)**

The bonds were issued at a premium of \$2,437,000, which is being amortized as a reduction of construction in progress using the effective interest method over the life of the bonds. The bonds mature in various amounts from June 2000 through June 2018. The bonds bear interest at rates ranging from 4.75% to 6.00%.

In December 2002, \$26,335,000 of the 1997 Series Bonds were refunded by the 2002 Series B Bonds. As a result, the \$26,335,000 principal amount of the 1997 Series Bonds is considered to be defeased and the liability for such bonds was removed from the balance sheet.

##### ***1994 Series***

On January 13, 1994, the Authority issued \$314,970,113 of 1994 Series Bonds to fund the following:

- a. The costs of construction, renovation, reconstruction and/or improvement of several State Office Buildings and Historic Restoration Projects.
- b. The costs of land acquisition and construction of South Woods State Prison.
- c. To refund a portion of the Authority's State Building Revenue Bonds, 1989 Series.
- d. To provide payment for a portion of interest payable on the 1994 Series Bonds through June 15, 1995.

The bonds consisted of both capital appreciation bonds and current interest bonds, with interest rates ranging from 4.2% to 5.0%.

In December 2002, \$164,920,000 of the 1994 Series Bonds were refunded by the 2002 Series B Bonds. As a result, the \$164,920,000 principal amount of the 1994 Series Bonds is considered to be defeased and the liability for such bonds was removed from the balance sheet.

In August 2003, \$76,770,000 of the 1994 Series Bonds were refunded by the 2003 Series A Bonds. As a result, the \$76,770,000 principal amount of the 1994 Series Bonds is considered to be defeased and the liability for such bonds was removed from the balance sheet.

##### ***1991 Series***

On October 9, 1991, the Authority issued \$74,999,816 of 1991 Series Bonds (Garden State Savings Bonds) to partially fund the State House Complex Project. These bonds were issued as capital appreciation bonds which mature in various amounts from June 2000 through 2011. Yields on these bonds range from 6.10% to 6.75%.

**NEW JERSEY BUILDING AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**

**E. FUTURE DEBT SERVICE PAYMENTS**

The following tables reflect the debt service by year for the 1991, 1994, 1997, 1999, 2000, 2002 and 2003 Series Bonds:

1991 Capital Appreciation Bond			
Year	Principal or sinking fund installment	(1) Interest	Total debt service
2004	\$ 5,974,172	\$ 7,555,828	\$ 13,530,000
2005	5,562,292	7,962,708	13,525,000
2006	5,177,525	8,352,475	13,530,000
2007	4,811,248	8,713,752	13,525,000
2008	4,506,031	9,023,969	13,530,000
2009	4,181,254	9,343,746	13,525,000
2010	3,912,647	9,612,353	13,525,000
2011	3,662,706	9,867,294	13,530,000
	<u>\$ 37,787,875</u>	<u>\$ 70,432,125</u>	<u>\$ 108,220,000</u>

(1) Represents \$70,432,125 of capital appreciation bonds payable June 15, 2004 through June 15, 2011. The discount related to this bond is being accreted for financial statement purposes over the bond life.

1994 Series Bond (net of 2002 & 2003 refunding)			
Year	Principal or sinking fund installment	(2) Interest	Total debt service
2004	\$ 2,656,664	\$ 1,743,336	\$ 4,400,000
2005	2,517,051	1,882,949	4,400,000
2006	2,382,452	2,017,548	4,400,000
	<u>\$ 7,556,167</u>	<u>\$ 5,643,833</u>	<u>\$ 13,200,000</u>

# NEW JERSEY BUILDING AUTHORITY

## (A Component Unit of the State of New Jersey)

### NOTES TO FINANCIAL STATEMENTS

#### E. FUTURE DEBT SERVICE PAYMENTS (CONTINUED)

(2) Includes \$5,643,833 of capital appreciation bonds payable June 15, 2004 through June 15, 2006. This discount is being accreted for financial statement purposes over the life of the bonds.

1997 Series Bond (net of 2002 refunding)			
Year	Principal or sinking fund installment	Interest	Total debt service
2004	\$ 12,320,000	\$ 8,705,934	\$ 21,025,934
2005	12,980,000	8,010,184	20,990,184
2006	13,705,000	7,276,346	20,981,346
2007	14,455,000	6,465,809	20,920,809
2008	6,980,000	5,864,639	12,844,639
2009	7,315,000	5,486,813	12,801,813
2010	7,735,000	5,083,131	12,818,131
2011	17,830,000	4,444,006	22,274,006
2012	18,720,000	3,530,256	22,250,256
2013	19,660,000	2,570,756	22,230,756
2014	7,570,000	1,890,006	9,460,006
2015	7,945,000	1,502,131	9,447,131
2016	8,345,000	1,089,666	9,434,666
2017	8,770,000	667,538	9,437,538
2018	9,185,000	229,625	9,414,625
	<u>\$ 173,515,000</u>	<u>\$ 62,816,840</u>	<u>\$ 236,331,840</u>

1999 Series Bond (net of 2002 & 2003 refunding)			
Year	Principal or sinking fund installment	Interest	Total debt service
2004	\$ 2,090,000	\$ 2,532,413	\$ 4,622,413
2005	5,565,000	2,341,038	7,906,038
2006	5,845,000	2,048,481	7,893,481
2007	6,165,000	1,733,219	7,898,219
2008	6,490,000	1,401,025	7,891,025
2009	6,835,000	1,042,700	7,877,700
2010	7,220,000	647,163	7,867,163
2011	7,645,000	219,794	7,864,794
	<u>\$ 47,855,000</u>	<u>\$ 11,965,833</u>	<u>\$ 59,820,833</u>

**NEW JERSEY BUILDING AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**

**E. FUTURE DEBT SERVICE PAYMENTS (CONTINUED)**

2000 Series Bond (net of 2002 & 2003 refunding)			
Year	Principal or sinking fund installment	Interest	Total debt service
2004	\$ -	\$ 458,908	\$ 458,908
2005	1,065,000	435,478	1,500,478
2006	1,110,000	387,350	1,497,350
2007	1,160,000	336,553	1,496,553
2008	1,215,000	282,811	1,497,811
2009	1,270,000	225,960	1,495,960
2010	1,325,000	165,944	1,490,944
2011	1,390,000	102,125	1,492,125
2012	1,455,000	34,556	1,489,556
	<u>\$ 9,990,000</u>	<u>\$ 2,429,684</u>	<u>\$ 12,419,684</u>

2002 Series A Bond (net of 2003 refunding)			
Year	Principal or sinking fund installment	Interest	Total debt service
2004	\$ -	\$ 1,494,745	\$ 1,494,745
2005	2,550,000	1,494,745	4,044,745
2006	2,605,000	1,442,470	4,047,470
2007	2,675,000	1,379,950	4,054,950
2008	2,750,000	1,307,725	4,057,725
2009	2,840,000	1,225,225	4,065,225
2010	2,935,000	1,132,925	4,067,925
2011	3,040,000	1,030,200	4,070,200
2012	3,175,000	920,000	4,095,000
2013	3,345,000	761,250	4,106,250
2014	3,525,000	585,638	4,110,638
2015	3,715,000	400,575	4,115,575
2016	3,915,000	205,538	4,120,538
	<u>\$ 37,070,000</u>	<u>\$ 13,380,985</u>	<u>\$ 50,450,985</u>



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**NOTES TO FINANCIAL STATEMENTS**

**E. FUTURE DEBT SERVICE PAYMENTS (CONTINUED)**

2002 Series B Bond			
Year	Principal or sinking fund installment	Interest	Total debt service
2004	\$ 8,085,000	\$ 10,290,480	\$ 18,375,480
2005	8,410,000	10,007,505	18,417,505
2006	11,620,000	9,715,625	21,335,625
2007	20,795,000	9,105,575	29,900,575
2008	21,900,000	8,076,338	29,976,338
2009	23,075,000	6,926,588	30,001,588
2010	14,370,000	5,715,150	20,085,150
2011	18,565,000	4,960,725	23,525,725
2012	21,160,000	3,986,063	25,146,063
2013	18,380,000	2,875,163	21,255,163
2014	17,690,000	1,910,213	19,600,213
2015	18,695,000	981,488	19,676,488
	<u>\$ 202,745,000</u>	<u>\$ 74,550,913</u>	<u>\$ 277,295,913</u>

  

2003 Series A Bond			
Year	Principal or sinking fund installment	Interest	Total debt service
2004	\$ -	\$ 5,903,928	\$ 5,903,928
2005	2,350,000	6,819,636	9,169,636
2006	2,700,000	6,776,927	9,476,927
2007	3,025,000	6,836,009	9,861,009
2008	3,350,000	6,544,020	9,894,020
2009	3,300,000	6,599,788	9,899,788
2010	3,575,000	6,336,502	9,911,502
2011	3,575,000	6,337,857	9,912,857
2012	8,675,000	6,036,220	14,711,220
2013	9,025,000	5,729,954	14,754,954
2014	8,650,000	5,556,025	14,206,025
2015	10,925,000	5,078,247	16,003,247
2016	11,200,000	4,821,920	16,021,920
2017	30,975,000	4,281,545	35,256,545
2018	36,225,000	3,182,737	39,407,737
2019	30,250,000	1,854,597	32,104,597
2020	6,975,000	787,663	7,762,663
2021	4,875,000	549,445	5,424,445
2022	5,050,000	362,685	5,412,685
2023	5,250,000	189,467	5,439,467
	<u>\$ 189,950,000</u>	<u>\$ 90,585,172</u>	<u>\$ 280,535,172</u>

**NEW JERSEY BUILDING AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS**

**E. FUTURE DEBT SERVICE PAYMENTS (CONTINUED)**

<u>Year</u>	<u>Total debt service</u>
2004	\$ 69,811,407
2005	79,953,585
2006	83,162,199
2007	87,657,114
2008	79,691,558
2009	79,667,074
2010	69,765,815
2011	82,669,707
2012	67,692,096
2013	62,347,123
2014	47,376,882
2015	49,242,441
2016	29,577,123
2017	44,694,083
2018	48,822,362
2019	32,104,597
2020	7,762,663
2021	5,424,445
2022	5,412,685
2023	5,439,468
Subtotal, gross debt	1,038,274,427
Less: interest portion	(331,805,380)
Add: premium on bonds	76,075,953
Net Bonds Payable	<u>\$ 782,545,000</u>

**F. RECLASSIFICATIONS**

Certain reclassifications have been made to the 2002 balances to compare with current year presentation.